

I. INTRODUCTION

Mission of the Virginia Department of Taxation

Our mission is to serve the public by administering the tax laws of the Commonwealth of Virginia with integrity, efficiency, and consistency.

Virginia's Tax Structure

Virginia consistently ranks in the top 20% of the states having the lowest tax burdens. The highest tax rate for corporations is 6 percent and the top tax rate for individual income tax is 5.75 percent. Based on 2002 data, the state and local burden for Virginia is \$95 per \$1,000 of personal income. This is \$9 below the national average of \$104 per \$1,000 of personal income.

Virginia is also known for its extremely stable tax base and rates. The state has not raised its income tax rates since 1972. The sales and use tax rate of 5 percent (4 percent state and 1 percent local) is among the lowest in the country and has been raised only twice since 1968. Beginning July 1, 1998, nonprescription drugs and proprietary medicines are exempt from state sales and use tax. Beginning January 1, 2000, the Food Tax Reduction Program reduced the state sales and use tax rate on food purchased for human consumption from 3.5% to 3%. This rate reduction, however, does not affect the local tax rate on such food products. Virginia has fixed its date of conformity to the Internal Revenue Code as it existed on December 31, 2003.

However, Virginia does not conform to the special 30% and 50% bonus depreciation and the five year net operating loss carry back provisions of the Job Creation and Worker Assistance Act of 2002. Virginia bases its income taxes on federal taxable income for corporations and federal adjusted gross income for individuals (with modifications if applicable). For estate taxes, a Virginia return must be filed only if a federal estate tax return has to be filed.

Key exemptions from the sales and use tax include industrial manufacturing, heating fuel, certain nonprofit organizations, and most services. Consumers are expected to pay a 5 percent use tax on items purchased outside of Virginia and brought into the state for use. This includes items purchased through mail order or items shipped to Virginia from retailers located outside of the state. There is no tax liability for individuals if mail order purchases total \$100 or less during a calendar year.

State Taxes

The Virginia Department of Taxation administers 30 state taxes, including income taxes, sales and use taxes, and miscellaneous excise taxes. The Department is 77 years old and has long been recognized as one of the better administered tax systems in the country. The Department employs approximately 755 classified employees, with a main office located in Richmond and one district office located in Norfolk, Virginia.

Local Taxes

Local taxes in Virginia, including real estate taxes, tangible personal property taxes and utility taxes, are administered separately by the state's cities, counties, and towns. More information about local taxes can be found in Section X. of this publication. For additional information on Local Tax Rates visit our website at www.tax.virginia.gov and click on Publications.

Other Major State Taxes and Fees Administered By Other Agencies

For information concerning other state taxes that are not administered by the Virginia Department of Taxation, consult the listing in Section XI.